



LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Annual and financial reports 2006-2007)

Members:

DR D FOSKEY (The Chair)
MS K MacDONALD (The Deputy Chair)
MR R MULCAHY

TRANSCRIPT OF EVIDENCE

CANBERRA

TUESDAY, 11 DECEMBER 2007

Secretary to the committee:
Mr H Finlay (Ph: 6205 0136)

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents relevant to this inquiry that have been authorised for publication by the committee may be obtained from the committee office of the Legislative Assembly (Ph: 6205 0127).

APPEARANCES

ACT Government Procurement Board	31
ACT Insurance Authority	31
Actew Corporation Ltd	31
ACTTAB Ltd	31
Exhibition Park Corporation	31
Gambling and Racing Commission	31
Rhodium Assets Solutions Ltd	31
Treasury	31

The committee met at 9.36 am.

Appearances:

Stanhope, Mr Jon, Chief Minister, Treasurer, Minister for Business and Economic Development, Minister for Indigenous Affairs, Minister for the Environment, Water and Climate Change, Minister for the Arts

Department of Treasury

Smithies, Ms Megan, Chief Executive (Under Treasurer)

Dowell, Mr Graeme, Commissioner for ACT Revenue, Revenue Management Division (ACT Revenue Office)

McNamara, Mr Jason, Director, Economics Branch, Investment and Economics Division

McAuliffe, Mr Patrick, Manager, Central Financing Unit, Investment and Economics Division

Austin, Ms Kay, Director, Strategic Coordination

Broughton, Mr Roger, Executive Director, Investment and Economics Division

Actew Corporation Ltd

Service, Mr Jim, Chairman

Costello, Mr Michael, Managing Director

Webb, Mr Chris, Deputy Project Director, Water2WATER

ACT Government Procurement Board

McKinnon, Ms Irene, Chair

Hardy, Ms Robyn, Acting Executive Director

Gambling and Racing Commission

Jones, Mr Greg, Chief Executive

ACT Insurance Authority

Matthews, Mr Peter, General Manager

Exhibition Park Corporation

Sadler, Mr Tony, General Manager

ACTTAB Ltd

Curtis, Mr Tony, Chief Executive

Rhodium Assets Solutions Ltd

Moore, Mr Ken, Chief Executive

THE CHAIR: We will make an immediate start. Thank you very much for coming along. Welcome to this public hearing of the public accounts committee into the annual reports 2006-2007. I am quite sure that everyone is aware of the yellow card stating your rights and the privileged nature of information you may divulge here. The statement will be incorporated in *Hansard*.

The statement read as follows—

Privilege statement

To be read at the commencement of a hearing and reiterated as necessary for new witnesses

The committee has authorised the recording, broadcasting and rebroadcasting of these proceedings in accordance with the rules contained in the Resolution agreed by the Assembly on 7 March 2002 concerning the broadcasting of Assembly and committee proceedings. Before the committee commences taking evidence, let me place on record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee in evidence given before it.

Parliamentary privilege means special rights and immunities attach to parliament, its members and others, necessary to the discharge of functions of the Assembly without obstruction and without fear of prosecution.

While the committee prefers to hear all evidence in public, if the committee accedes to such a request, the committee will take evidence in camera and record that evidence. Should the committee take evidence in this manner, I remind the committee and those present that it is within the power of the committee at a later date to publish or present all or part of that evidence to the Assembly. I should add that any decision regarding publication of in camera evidence or confidential submissions will not be taken by the committee without prior reference to the person whose evidence the committee may consider publishing.

I also have a few housekeeping matters which I need everyone in the room to observe:

All mobile phones are to be switched off or put in silent mode;

Witnesses need to speak directly into the microphones for Hansard to be able to hear and transcribe them accurately

Only one person is to speak at a time

When witnesses come to the table they each need to state their name and the capacity in which they appear.

Amended 20 June 2007

THE CHAIR: If you have any questions, please ask. In terms of housekeeping, I would like you to turn off your mobile phones. The first time you speak, say your name and your position. For the benefit of Hansard, speak directly into the microphone.

We have three committee members here and, as is the norm, we will have questions from the committee first. Mr Smyth is here. I am sure the committee has no objection to his asking questions. As long as everyone knows how it is going.

We will start with Treasury, then Actew and a host of other agencies. In regard to the implementation of the utilities network facilities tax, Treasurer, has the department been able to monitor the impact of this tax on low-income bill payers and considered whether any changes should be made to the government's community service obligation? I believe the government did say it would monitor the impact of the tax when it implemented it.

Mr Stanhope: In relation to the tax and its implementation and the issue on the stress that different ratepayers or taxpayers feel, it might be appropriate if I ask Ms Smithies and officers from Treasury to respond on the arrangements that are in place, the monitoring that is undertaken and the assistance provided to ratepayers who are stressed by their taxational rate obligations. I defer to Ms Smithies.

Ms Smithies: The government provides concessions, through its concessions program, for a number of items in relation to the utilities tax. We have not been advised by the Department of Disability and Community Services whether there has been any particular pick-up in the rate of application for these concessions or any other particular significant concerns that are coming through from the application of the utilities tax.

Their concessions regime is reviewed and is currently under review by the Department of Disability and Community Services across the board in relation to the targeting and the range of services that are provided. Otherwise, we do not see a significant level of concern across the community. That is not to say that there is not some concern in the community. That is not to say that we are not receiving a number of bits of correspondence which relate to the utilities tax. A number of those really go to the issue of taxation rather than capacity to pay or the issue of income, income support or income equity.

THE CHAIR: It is early days. Anecdotally, I have heard that some of the organisations who assess people who are really struggling to pay their electricity bills mention this as an extra straw on the camel's back.

MR MULCAHY: Chief Minister or Ms Smithies, what has been the response and the nature of discussions with the utility providers, particularly the telcos, in relation to the introduction of this tax and its implementation in the systems chain?

Mr Stanhope: I do not believe I have personally had any representations from any utilities since the introduction of the tax. I certainly had representations prior to its introduction. I cannot recall a single representation to me by any of the utilities since its introduction. They have been negotiating with Treasury in relation to its application. Perhaps Ms Smithies can assist in relation to that.

Ms Smithies: I will ask the commissioner to provide some additional information. Certainly, the rate has been negotiated with, I am sure, the telcos and the other utilities. I am not sure that is necessarily translated into a level of concern in relation to the application of the tax itself.

Mr Dowell: With the determination of the size of the network—we have dealt with all of the taxpayers, which are across all the utilities—there is an approved methodology to calculate the distance, which is what the tax rates apply to, against the extent of the consultation that we have had.

MR MULCAHY: In relation to methodologies, I understand it is far from exact; there is an element of guesstimate in the whole process. Has that been examined in terms of legality and potential challenge to constitutionality?

Mr Dowell: The basis on which we have accepted methodologies is similar across all the telcos as well as water and everybody else. The reason that it cannot be 100 per cent precise is that the measurements that people have of the networks are not exactly the same. So there needs to be an agreed methodology in place.

MR MULCAHY: And the second part of my question?

Mr Dowell: To date, there has been no challenge, as far as I know.

MR MULCAHY: I did not ask you whether there had been challenges. Have you taken legal advice on the validity of the methodology you use, given that it is far from an exact method of calculation?

Mr Dowell: Legal advice was taken on the establishment of the act and the way the act operated. That included the use of an approved mechanism.

MR MULCAHY: It included methodology, are you saying?

Mr Dowell: It included the mechanism used to reach methodology.

MR MULCAHY: But not the methodology per se?

Mr Dowell: We have not sought separate legal advice on each methodology, no.

MR MULCAHY: Do you think you should?

Mr Dowell: No.

THE CHAIR: Mr Stanhope, the regulatory impact statements responsibility has been transferred from the Attorney-General to the Treasurer. I am wondering why that was. Have there been any further developments or thought given to making the ACT government's regulatory impact statements public, given that other governments do make them public?

Mr Stanhope: It is not an issue that I have given any recent consideration to. I will take some advice on it.

Ms Smithies: We are doing some work on regulatory impact statements and benchmarking in relation to best practice. We are looking across other jurisdictions in relation to what they are doing. We are giving some thought at the moment—it is a piece of advice that has not come to the government as yet—to what we may well do. I ask Jason McNamara to provide some additional information.

Mr McNamara: The idea of transferring the regulatory impact statement to the Treasurer was in relation to the actual administration, if you like, underlying the regulatory impact process. Treasury plays that role in terms of advising agencies on how to prepare risers. It was felt that ministerial arrangements could align with that. We are also heavily involved, through the COAG process, in looking at regulatory reform and the regulatory impact process. That is one of the roles we play, through the

COAG process, at the moment. It is something that we are examining at the moment.

THE CHAIR: Do you think we might have a bit more settlement on this by the time of the next annual report? Ms Smithies mentioned that consideration has been given to the way that regulatory impact statements are treated.

Mr McNamara: It is something that is under active consideration at the moment. As I said, there is a COAG agreement in regard to reforming these processes and trying to align standards across Australia. It is something we are actively looking at, at the moment, to see what options could be brought into the ACT. Our process at the moment is fairly good. Our record is fairly good when we look at it on a comparison basis. But there are always opportunities to see whether we can make the process even better.

THE CHAIR: We have to take your word for that, because they are not made public.

Mr McNamara: Some are made public. Under the legislation, some risers are made public on disallowable instruments. On a case-by-case basis, other risers have been made public as well. I think the utilities tax was one where we made the riser public, as an example, when it was requested.

THE CHAIR: What determines which ones will be made public and which ones will not?

Mr McNamara: That is normally a decision for government. Essentially, at the moment, the way a lot of the risers work is that they are cabinet documents. In that sense, they are subject to cabinet confidentiality. It makes it difficult to release them all the time, because of the nature of the documents.

Ms Smithies: I am sure you would be aware that it is actually a requirement with each proposal to vary legislation that it be accompanied by a riser. The riser is worked through in the normal processes that a cabinet submission would, in consultation with the officers from the economic branch. It is in front of cabinet as part of that process. On top of that, there is a how-to guide on regulatory impacts put on the Treasury website on creation of a riser. I understand that is now also, after having been released, I think, about a year and a half ago, if not longer—

Mr McNamara: In 2003, I think it was.

Ms Smithies: How time flies. The officers are again having a look at that to ensure that it is contemporary et cetera. That work is also underway.

THE CHAIR: I have a couple more substantive questions. This is a perennial from me; I am sure you are prepared for it. I cannot see any mention at all in the report on progress on triple-bottom-line reporting. Could you please bring me up to date on that and explain to me again how this annual report reflects those considerations?

Mr Ahmed: We have been working on a triple-bottom-line assessment frame, but I should point out that the rules on that assessment are pretty much in place. We are working on the guidelines on how to implement those rules and how you do those

assessments. We have had extensive consultations with agencies. We are pretty much close to being ready to go to government for endorsement. Following that, we will be going through an implementation process. The assessment framework is pretty much developed. We have had quite regular consultation with agencies on that.

THE CHAIR: Will there be some point at which this is laid on the table so that we can see it?

Mr Ahmed: Certainly. This should be available, as a guide to agencies, on the Treasury website.

THE CHAIR: Is it going to be in the annual reports instructions? How will it be applied?

Mr Ahmed: I am not certain whether that guidance will be included in annual reports, if that was your question. Certainly that guidance will be available to agencies through our website and through correspondence to them.

Mr Stanhope: As Mr Ahmed has said, the report on the proposed structure has not yet been submitted to government for approval and sign-off. Perhaps some issues in relation to implementation would reasonably await or follow that approval. Certainly, as is implicit in your question, it will be a public document; it will be made publicly available; and it will be a document against which all departments will report.

It may be that the suggestion you make will be incorporated within annual report guidelines or instructions. That will be the decision the government will take in relation to its formal application and implementation. But it will be a public document and a public process. We would expect feedback and commentary on the proposal.

THE CHAIR: In regard to the Chief Minister's response to the review into the potential for socially responsible investment, how will we, as the interested public and Assembly members, know how and what impact that review will have on decisions made in regard to investment? I note, on page 2, that it is reported that the territory's investment portfolio performed above the benchmark. That is very good. To me, that seems all the more reason for a pilot to look at socially responsible investments. What has happened? How will we be kept in touch on progress in future?

Mr Stanhope: I think the baseline position is, as you are well aware, that we commissioned a report. A report has been received. The government accepts the report and has undertaken to implement all of its recommendations. We are at that stage of implementation.

We have received a quite rigorous report on issues of investment and our investment practices. We have undertaken to accept in toto the report. Treasury is tasked with responsibility for its implementation. That is where we are at now. You make a good point in the context of how and in what way will we notice any difference in our investing behaviour. I ask Ms Smithies to provide more information about a monitoring process and our capacity to respond.

Ms Smithies: I will hand over to Patrick McAuliffe, the officer who has been

involved in all of this.

Mr McAuliffe: Now that the decision has been taken about what we are going to implement, we are currently working through how that will be implemented. There is no simple solution that can be done overnight. We are talking with a lot of other government and like investors across the country to work out how they are doing things. We are in the process of pulling all of that together. Hopefully, early in the 2008 calendar year, we will be in a position to start updating our investment policies and get some things implemented in accordance with the government's decision.

I expect that, when we are putting together our policy, we will establish how we will report, to the extent that we can, the benefits of going down this path. It is a difficult issue that the entire industry faces. There is no simple measure. As the review highlighted, this is an issue that is gathering momentum globally, and everybody is still coming to grips with how best to implement it for their own circumstances. We will have to work through that process. To the extent that we can report on benefits that have come out of it, I am sure that we will. At the moment we have to work out exactly what things we will implement.

THE CHAIR: Given that, as you say, so many municipalities are grappling with this—not just governments but lots of other bodies, such as churches—would there be some way of plugging in, without reinventing the wheel, to some of the measures and other kinds of developments that are happening? Are you consciously doing that?

Mr McAuliffe: That is the research we are trying to go through now. We do not want to reinvent the wheel; we want to have some practical outcomes. We do not just want to go and do a whole lot of things for the sake of doing them.

THE CHAIR: Absolutely.

Mr McAuliffe: That is the process we are working through now.

MR MULCAHY: Your primary consideration, I take it, will be to maximise the investment on behalf of the territory's funds and the employees' retirement funds for which you are responsible.

Mr McAuliffe: The government's decision is to take a risk-based approach to investing. Sitting behind that, we have to look for the best outcomes. The review was pretty clear in terms of values-based investing and screening. So we are certainly looking to see where we can still maintain those good returns and at the same time achieve those outcomes that we are trying to achieve in terms of ESG issues. That is certainly the objective.

MR SMYTH: My question relates to the triple bottom line. I note on page 10 of volume 1 that one of the future directions is that in 2007-08 the two groups will work towards implementing a triple bottom line/sustainability assessment framework for the government. Chief Minister, will that be achieved by the end of 2008 or will it roll over into 2008-09? Is that the report that will therefore be the foundation for the guidance in the annual report directions?

Mr Stanhope: I will ask Ms Smithies to respond to that.

Ms Smithies: I am sorry; where are we at?

MR SMYTH: Page 10, third-last dot point.

Ms Smithies: As we said, a lot of work on the framework has already occurred. That work needs to be considered by government. The issue around the triple bottom line and the sustainability assessment is that it needs to be implemented through the processes that sit around cabinet processes because they are there to guide the government's decision-making processes. It allocates resources or makes other sorts of decisions which impact on the framing of legislation or the framing of any other particular policy that goes to cabinet. That work has been underway; the framework itself has been consulted on by agencies.

Yes, it is envisaged that by the end of the financial year 2008 we should see something that will be implemented through the processes. Some of the normal questions that you get through a triple-bottom-line analysis are already implicit in government decision making in any case, and the sorts of things you would look at are part of those processes. Indeed, with respect to the government's decision and policy on climate change and the targets that are implicit in that, a lot of the things that are coming through processes are guided by trade-offs around those targets. We are seeing that drift through; the framework itself will provide a lot more of the solid framework in which to consider these things and it will hopefully be implemented by the end of the year.

MR SMYTH: Chief Minister, will that allow you to include that in your annual report directions for the 2007-08 annual reports?

Mr Stanhope: Certainly, if that is the decision we take. As Ms Smithies indicated, the report is yet to be provided to government. Ms Smithies indicated it will be provided in the new year and that the policies will be capable of being implemented subject to government decisions in relation to that before the end of this financial year. So, yes, whatever decision we take on instructions in relation to implementation will be able to be taken in that time frame. Whether that will be by changes to annual report directions has not yet been decided.

Ms Smithies: The annual report itself is a process of reporting after the fact. Annual reports contain a number of things which do realistically go to the state of the operation of the agency during the year, so it does talk about the environment. Certainly, there is a tome related to the financial outcomes of an agency. It talks about ecological and sustainable development. You see staffing profiles, community consultation and all those things. They are already implicit in the annual report guidelines. They are part of the annual reports of each agency. A lot of this framework is not about the reporting after the fact but about getting the processes up front right.

MR MULCAHY: Chief Minister, on page 26 of volume 1 of the annual report, under "fraud prevention", it refers to two instances of fraud which led to the dismissal of two staff members. Can you inform the committee of what the nature of these alleged acts of fraud were and whether the government referred these instances to the DPP for

potential criminal prosecution? If not, why not?

Ms Smithies: I believe, if I have them right, one of them was around cash theft and the other was around some employment documentation fraud, both of which were referred to the police.

MR MULCAHY: Were they prosecuted?

Ms Austin: There were two instances of fraud. The first instance, which related to the forging of some recruitment documentation, was not taken further because there was no financial impact. The staff member who tried to perpetrate this fraud was a temporary staff member and she was dismissed. The AFP was called in to take the matter further but they saw this as an internal matter and did not take it forward.

With the second incident, which related to the stealing of a small amount of cash from the ACT Revenue Office's cash tills, in that case the AFP was called in and did look at information they had available from photo tapes—photos that were taken of people in the vicinity—and they could not find any leads to take forward. The amount stolen was under \$500. Some process review changes have been put in place in the Revenue Office to make sure all of their staff, including temporary staff—and this was a temporary staff member—fully understand the processes and controls on keeping cash well secured when they are not at their desks.

MR MULCAHY: What mechanisms do you have in place to make sure people in instances such as this do not turn up applying in other government agencies that may be hiring new staff, either for permanent or for temporary positions?

Ms Austin: I am not aware of any provisions per se, other than the police checks that are undertaken when new staff members start, as a matter of course in the ACT government.

MR MULCAHY: Is that on all staff or just on people who are selected for permanent positions? Do you do that in relation to temporaries and contractors?

Ms Austin: For Treasury, temporary and permanent staff are all police checked. You may like to ask the executive director of HR, Shared Services, about the police checking process. I can speak on behalf of Treasury, being responsible for Treasury: all the temporary and permanent staff are police checked.

Ms Smithies: There is a fairly rigorous process around referee checks as well before we take staff on. If the essence of your question was around some type of whole-of-government list, no, there is not.

MR MULCAHY: I will move on to revenue forecasting. How, if at all, does the Treasury take into account the revenue that will be derived from specific sales of land or specific building developments that are under construction at the time of forecasting?

Mr Stanhope: I will ask Mr Ahmed to respond. Of course, those sorts of considerations go to the heart of forecasting. I know there has been a lively debate and

some disagreement or dissension in relation to forecasting and the science of forecasting.

MR MULCAHY: Within Treasury?

Mr Stanhope: Not so much from within Treasury but certainly from a range of external sources and representative bodies, particularly those that do not seem to like to pay tax very much. I regret the extent to which much of the questioning and commentary is a reflection on the capacity and professionalism of Treasury and Treasury officials. The ACT Treasury's forecasting record matches that of any other treasury in Australia. Much of the commentary really has been regrettable. Mr Ahmed will go to the science of forecasting, particularly in relation to land and development.

Mr Ahmed: There are a range of forecasting methods, and we use different methods for different revenue lines. That is appropriate. For general rates, we would have a particular model; for conveyancing duty, we would have a different model. Again, on conveyancing duty, on the residential side we will use a specific model compared to the commercial side. On the commercial side—and I think that was the thrust of your question—we essentially split the activity into three different segments. As a base segment, we would use general statistical methods.

The range of activity which is not very consistent, which is quite volatile, can have significant contributions to conveyancing duty. We use some probabilistic methods there, as well as trend analysis. Finally, there can be some extremely large transactions. We can predict them in a probabilistic sense but the probabilities are such that you cannot incorporate them into a single year.

MR MULCAHY: If there is a project coming on line and there is likely to be a transfer of ownership, with associated revenues, you are not actually putting that into your equation?

Mr Ahmed: We do, but we do not look at individual projects because we do not know. In some cases we do, and that would be part of the consideration and part of the analysis, but purely in a statistical sense. You could get some market intelligence around specific projects coming online, but that is a guide. We still use our statistical methods, which we think is better than adding up all the individual projects that are happening, if we could know them, and adding them up.

MR MULCAHY: Does it trouble you when we are so consistently off the mark in terms of our forecasting? I know from the estimates hearings in June that the Chief Minister was less than pleased with the comments by Mr Hedley from the Property Council on this issue. Don't you think there is a bit of a point to be made here that maybe your methodology is simply not capturing the data accurately? The figures are way out regarding what happened. Your forecast is significantly off the mark, and we are making taxation decisions for the people of Canberra based on those forecasts. I am not doubting that you are doing your best, but doesn't it raise questions in your mind as to whether the forecasting is sound?

Mr Ahmed: There is always a question about how well you are doing. I must point out that this issue about revenue forecasting is not unique to the ACT.

MR MULCAHY: I am aware of that.

Mr Ahmed: We are talking about predicting the future. Nobody predicts the future 100 per cent of the time with 100 per cent accuracy. So the question is about how accurate one is and how wrong one is compared to others. There are two or three different ways in which you could make that judgement. We have been looking at this issue for the past several years—our performance compared to others.

I should give you some figures. Obviously it is a question not only about the professional expertise of Treasury but also about the systems, structures and processes we have in place. As you said, there are budget decisions to be made on this. We have looked at the comparison over the last five years. So that is a reasonably long time frame, across all states and territories. We have looked at three or four different measures. I will describe them one by one.

MR MULCAHY: You can table that, if the chair is agreeable. That is fine, but it really does not solve the problem. You are saying to me that it is off the mark here, but so is everybody else's. I am saying that maybe the methodology you are using is really not producing the level of accuracy that the territory should have, albeit that others may also not be accurate. That takes me to the second issue, and that is land sales, which I would have thought were more predictable in terms of what the government sells off. Is that taken into account?

Mr Stanhope: In relation to the comparisons, we use a methodology that I think every government in the ACT has used since self-government and it is essentially consistent, in terms of outcomes, with that which every other jurisdiction in Australia produces. You might say, "Well, okay, you've got a methodology; perhaps you should be looking at it," but as against other governments within Australia it is a methodology—and Mr Ahmed was about to go on the basis of three separate criteria results that are essentially consistent and in some cases better than the rest of Australia. So, as against other jurisdictions, our performance measures up well. That was the point that Mr Ahmed was going to make. We have no issue with the tabling of the document which Mr Ahmed was going to quote from.

I just go back to your comment about the property council. They suggested that the surplus—I think that was their particular fixation—would be larger than was revealed, and certainly as it transpires it was. But this has been my issue: the specific examples that were laid on the table to justify that particular prediction. One was QEII, the allegation being that we had not taken into account when indeed we had; it was there in the budget and part of the forecast. We can all predict a whole range of things and can be either right or wrong; you can say it is going to be more or you can say it is going to be less and you have a pretty fair chance—in this particular environment, to say that the surplus would probably be greater; well, fancy that, when it comes to pass, it is.

MR MULCAHY: So your issue is with their methodology as well but you do not dispute the fact that the surplus was substantially more than anyone thought it was going to be?

Mr Stanhope: Precisely. I do not dispute that. I accept that absolutely. My continuing issue is that it was based in the first place on statements or assumptions that were simply false and in the second on a complete misunderstanding of GFS as opposed to an Australian accounting standard, particularly as it relates to section 63. I think part of your earlier question went to that very issue: the difference between accounting for QEII as opposed to section 63 because of the different method of disposal. Mr Hedley completely misunderstood and misrepresented that position.

MR MULCAHY: I am sure you will point that out to him whenever you can.

Mr Stanhope: I have, a couple of times, already. He incorporated section 63, an option, straight into the budget surplus.

Mr Ahmed: Can I just add that our revenue forecast accuracy is the best of all states and territories based on mean percentage error. This measure describes what is the relative error in your forecast. There is another measure that we need to look at in conjunction with this measure and that is an absolute percentage error. The absolute measure will tell you how far off in magnitude terms you are from the actual, and the mean percentage error will tell you whether you have a bias in your forecast or not. Our mean absolute percentage error is lower than the Australian average; that means that in magnitude terms we do better than the Australian average. The mean percentage error is the minimum of all states of territories; that means that our forecasts are less likely to be biased.

MR MULCAHY: It does trouble you, does it not, that the outcome is that it is still well off the mark?

Mr Stanhope: It frustrates me, Mr Mulcahy.

MR MULCAHY: I'm sure it would.

Ms Smithies: It would be good to be perfect with our forecasts.

MR MULCAHY: I do not know that we are asking for perfection—just whether you can get it—

Mr Ahmed: It would be good to be perfect and it would be good to be—

Mr Stanhope: I am sure it frustrated Peter Costello that he ended up with \$17 billion more than he budgeted for. I am sure that frustrated him as well.

MR MULCAHY: I'm sure Mr Rudd will be the beneficiary.

Mr Ahmed: There is a question of professional pride here and, yes, we would like to do better; we would like to do even better than we do. But there is a question about how best you can do. We have reviewed our systems, structures and processes around it. The governance is fine; we do not see any problem with that. I can describe to you, if you like, how we go about it. If you look at this analysis, it tells us that we are the best. It gives a couple of other measures, which are really top standard statistical measures of forecast accuracy. We do better than the median and in some cases we

are the best. The issue was not really for us to create a league table; it really was to understand whether we have some deficiencies in our skills base or in our systems or structures, and we have not been able to find any.

MR MULCAHY: So you think the problem is insoluble essentially? There are no revisions to your methodology that will bring us nearer to accuracy in forecasting?

Mr Ahmed: No, I would not say that. There is always room for improvement. As more data becomes available you improve your models—and we keep doing that.

MR MULCAHY: Do you have an econometric modelling capacity in the ACT Treasury?

Mr Ahmed: Absolutely.

MR MULCAHY: What system do you use? Which model do you use?

Mr Ahmed: As I said, we use different models for different purposes. In some cases we use autoregression models; we would use multivariate analysis and so on and so forth. In terms of capacity and skills I think we have a couple of PhDs, people with long experience, 15 or 20 years experience, in ABS. The whole weight of Treasury is brought to bear in revenue forecasting; that is the system and structure we have in place and that system neutralises any biases that we might have as well. For a small Treasury I must say that we do very well.

MR MULCAHY: Good to hear it. Can I just go on to tax efficiency now, Treasurer. Given the large increases we have had in taxes in the last couple of years, I am wondering what role Treasury has had in providing advice to the government on the economic aspects of taxation. This somewhat follows from some of the things that Dr Foskey has pursued: what economic analysis has Treasury undertaken on the effect of ACT taxation? Have you assessed the comparative economic efficiency of different ACT taxes?

Mr Stanhope: Yes, certainly before taking decisions to introduce new taxes, and in particular taxes or charges, the government took advice and Treasury undertook some significant analysis of the impact of each of those. It is a matter of course, I would have thought, on every occasion when there has been a review or consideration of different rates of changes in taxation levels, but in terms of methodology around that Ms Smithies may be able to provide additional information.

Ms Smithies: Again this is advice that goes largely to cabinet. We do provide in the context of annual budgets a relatively comprehensive analysis of the existing tax base and proposed changes to the tax system, and that is looked at in the context of economic incidents and the issues around efficiency and tax efficiency et cetera. I guess the comprehensiveness of that document will vary from year to year, again depending on circumstances. That advice is all provided to cabinet.

MR MULCAHY: Can you expand a bit on the results of assessing the tax efficiency of the ACT's particular taxes? Which ones do you find more efficient, or have you found?

Ms Smithies: I will ask Roger Broughton to provide more detail.

Mr Broughton: We do analyse the impact of all of the taxes lines from time to time. We do it either if there is a specific proposal in front of us or if we are just generally reviewing the options for either tax mix or tax levels. Most of that analysis to date has been the impact on households and businesses in terms of dollars per annum, dollars per household—those sorts of things. In the time that I have been there we have not done a comprehensive review of the relative efficiency, and by that I assume you are talking about economic efficiency. Certainly the administrative efficiency aspects of taxes are also looked at on a regular basis generally by the Revenue Office but in conjunction with our area as well.

One thing that is important to remember when you are dealing with state and territory taxes is that we have a very limited capacity—a very narrow range of taxes that can be applied—because of constitutional—

MR MULCAHY: Albeit expanding that base, though.

Mr Broughton: We have expanded slightly with the introduction of the UNFT. I think that is probably the only new—

Ms Smithies: We have also contracted with the removal of taxes under the IGA as well.

Mr Broughton: That is correct, yes.

MR MULCAHY: Mr Broughton, do you look at the impact of these? I will give a couple of illustrations: the increase in the water abstraction charge, the increase in rates, on people who might be on fixed incomes, or low income earners; who may be sitting on a valuable asset in terms of property but in fact are what I call cash poor—have low income flows. Is that part of the area that you look at—the potential impact on those people, or is that somebody else's problem?

Mr Broughton: Absolutely. We look at not only the total effect of a tax on the community but also the distributional effects. Every government that I have been involved with has been concerned about people on fixed incomes, particularly those who are asset rich and income poor, and those things are definitely taken into consideration in decisions that are made by cabinet.

MR MULCAHY: How do you deal with those issues? Is it just that people have got to tough it out, or have you had any creative solutions for people in that position in the ACT?

Mr Broughton: In terms of the decision as to how a tax might be framed, that is left to cabinet and we provide advice on what the impacts might be. Obviously we have a concession program that is sometimes based on income and is not asset tested, so people who are income poor but asset rich may have access to the various concession programs. Finally, there are a number of mechanisms in place within the financial market for those people to tap into their assets as well to enhance their incomes. I am

talking about—

MR MULCAHY: Draw down equity loans, do you mean?

Mr Broughton: Yes, reverse mortgages and the like.

MR MULCAHY: Which have been the subject of considerable criticism.

Ms Smithies: We should also just round out by saying that all of our analysis shows still that the territory sits in the middle of the pack in terms of our taxation efforts, so with expenditure sitting, albeit having reduced significantly over the past two years, any issue for the territory in relation to its tax mix needs to still be made with consideration to keeping and maintaining the tax base and what is a difficult tax base.

THE CHAIR: We are five minutes away from where we are going to reconsider whether we stick with Treasury or move on to Actew, so I will let Mr Smyth have a question or two and then hopefully I will have a question or two as well if there is time.

MR SMYTH: Chief Minister, which version of the wage-price index is used in the ACT?

Mr Broughton: That is one for me and I am not sure. Are there are several versions? I am not familiar with—

MR SMYTH: The ABS publishes four different versions: two are based on ordinary hours of work with or without bonuses, and two are based on total hours of work with or without bonuses, so clearly there is an enormous range. Which version are we using, Chief Minister? And why weren't you aware that there are four different versions?

Mr Broughton: We might have to take that on notice. I am sorry, I do not know the exact details of that measure.

MR SMYTH: So has any work been done on the impact of using WPI in the ACT as opposed to CPI being used in the other states as to our favourability for business?

Mr Broughton: Some work has been done on that.

Mr Ahmed: I think we have taken the question on notice. Yes, there are a couple of versions. Some include overtime and some do not. With respect to your second question, regarding the difference between WPI and CPI, it would be roughly about one or 1½ per cent. WPI is considered to be a better reflection or a better measure of growth in cost of services. That is the reason why the government adopted that measure. Because 70 to 80 per cent of the cost of services would relate to labour costs, it is considered to be a better reflection of the cost escalation.

MR SMYTH: Is the analysis available for tabling for the committee?

Ms Smithies: As in the dollar value difference?

MR SMYTH: Any work on what impact using WPI has on the economy as opposed to using CPI.

Mr Stanhope: I have provided answers to questions on that half a dozen times, but I am more than happy to do it again.

MR SMYTH: I have a question relating to Treasury estimates of the performance of the economy. I note from ABS state account documents that economists at the ANZ Bank have done some analysis that shows that the growth in real state gross product from 2001 to 2005 in the ACT was the second lowest in the country and well below the national average and that the growth in the real gross state product for the coming years, 2005-06 to 2010-11, based on information provided by the Treasury, will be the lowest in the country. Chief Minister, are you happy with those estimates and forecasts? What are we doing to make sure that the ACT performs as strongly as possible?

Mr Stanhope: I think it is a reflection of the higher base off which we are coming.

MR SMYTH: What does that mean? We are forecast to have the worst growth in real state gross product of any jurisdiction in the country, yet they are in the same boat.

Mr Stanhope: No, they are not.

Mr McNamara: In terms of gross state product, you need to draw a distinction between numbers produced by the ABS up to their last publication and before their last publication product. They have introduced a new methodology, a production based methodology, to come up with the gross state product, which they have now released for 2006-07. Until then, they labelled the gross state product as “experimental”. That was the terminology they used. You would have noticed in our budget papers that we put the gross state product number as a memorandum item, and quoted from the ABS in terms of the quality of the figure.

I think it is important, when looking at it historically, to note that those figures were not what I would call accurate, and they did not line up with what was actually happening in our economy. If you looked at other, more established methods, such as state final demand, our economy was going in one direction and the ABS’s GSP measure was showing something different.

The ABS acknowledged that by working on the methodology. They are now happier with the methodology, and that is important—in going forward the GSP will be a better measure of our economic performance than it has been in the past. It still has some issues with it because it is still very reliant on commonwealth data in terms of commonwealth government expenditure and investment. The commonwealth does not actually collect data on an ACT basis, so the ABS has to estimate, taking aggregate data at the commonwealth level, how much of it is apportioned to the ACT and how much is apportioned to other states. That creates great difficulty and lumpiness in terms of our figures. I think there are some issues to do with accuracy.

In terms of our forecasts for the ACT economy, the point we made in the budget

papers about our growth forecasts was that, in a simple mathematical way, the level of investment in the economy in the 2006-07 year was the highest on record. Even if we have the second-best year in 2007-08 in a record sense, the growth rate is not going to be a positive growth rate from that high base. So even if you have the second-best absolute year in terms of numbers, the difference between the numbers is going to be slightly lower, and that is why you will get a growth figure that is slightly different, and definitely lower than for the previous year.

THE CHAIR: Regrettably, because there is so much more to talk about, I would like to thank Treasury officials for all the work they have done.

Short adjournment.

THE CHAIR: Good morning, Mr Service and officials. I draw your attention to the statement in front of you, which I will not read. We will take it as understood that you are very familiar with it. Mr Stanhope, would you like to make an opening statement about Actew?

Mr Stanhope: I have no statement, other than to say that the chairman and chief executive officer of Actew are here, with officials, and stand ready to be of whatever assistance they are able.

THE CHAIR: Mr Costello, do you have an opening statement?

Mr Costello: It may be useful for me to make a brief opening statement, given the developments since the annual report.

THE CHAIR: Thank you.

Mr Costello: The annual report goes, by definition, up to 30 June. Since then, there have been some significant and major developments in Actew. In July this year we submitted to the ACT government our recommendations to further secure the water supply of the ACT and the region. The recommendations were based on extensive analysis, drawing on the work that had been completed in 2004 and 2005 as well as very extensive updates and additional work completed over the first part of 2007. More than 30 new reports were produced to support the recommendations.

In October, the government advised their decision on the recommendations as follows: first, enlarging the Cotter dam from four gigitalitres to 78 gigitalitres, with planning and design work to begin immediately and work expected to be completed within three to five years; second, the likely installation of infrastructure to increase the volume of water transferred from the Murrumbidgee River to the Googong dam; and third, pursuing the possibility of purchasing water which could be stored and released from the Snowy Mountains scheme. The government did not make a decision—and said that it would not yet make a decision—on the question of a water purification plant, but asked us to proceed to the design of a demonstration water purification plant. And it was decided that we should offset additional greenhouse gas emissions associated with the operation of all water security projects. These are major proposals and will take a great deal of Actew's time, focus and effort over the next five years.

I should add that, in addition to those proposals, we have before the regulator at the moment proposals for some \$300 million worth of other capital works over the next five years.

The reason we made these new recommendations to the government was that some of the key assumptions which, back in 2004-05, we said we would need to keep under close review had changed in a significant way. The key one was that which related to climate change and climate variability. In our earlier reports we took the most pessimistic approach we could to the analysis by the CSIRO of the impact of climate change and climate variability. We assumed that there was a 30 per cent reduction in the long-term average inflows into our dams and that that had occurred already rather than, as the CSIRO's data suggested, by 2030. In fact, over the period 2001-06, there has been a decline in long-term average inflows of 63 per cent. In 2006, the decline was almost 90 per cent.

We have had further work done and we are now working on the basis that our long-term average inflows will have declined by close to 50 per cent. The advice to us from the scientists is that, with those long-term average inflows declining to 50 per cent, there will be more frequent droughts and they will be longer and more severe. That meant that we had to rethink the basis on which we had planned in the past. We try always to work on the basis of the best scientific advice and we work on the basis that we hope for the best but we are obliged to plan for the worst.

Recent inflows into our storages are very welcome, but they certainly do not mean an end to our difficult situation. Our storages have recovered somewhat since June or July, but even the last rains in November, which were good rains, added to our storages by only a little over two per cent. Rainfall and inflows are not necessarily the same thing. Storages now stand at about 43.8, and they have plateaued in the last two days. At the end of November, the level was the lowest level we have ever had at that time of year, and had been persisting that way.

The medium and long-term outlook beyond the next few years is what we need to look at. That is what these projects will address. It has even been suggested to us in the last week or so that even aside from the concern with climate change this may well be part of a 30-year drought. I do not know if that is true, but one has to work on the basis that it is a possibility and plan for that eventuality.

The key challenge for the medium and longer term is therefore to build additional water supply assets that can cope not just with very much reduced long-term average inflows into our dams but with more frequent droughts which are longer and drier than we are currently experiencing—without having to go into high-level water restrictions for extended periods.

If we are to have the capability to deal with these longer, drier and more frequent droughts, we must have future water supply capacity that will be additional to that which we need in years of average inflow. The financial cost of this extra capacity is not wasted or premature investment but is essential and justified on the grounds of ensuring water security during these frequent and more serious drought periods. Thus we have recommended a series of new investments and the government has agreed in

part to most of those.

I might observe that we are not alone in taking this cautious approach. Other states are similarly working on the basis that in future water plans must be based on being able to deal with periods of reduced inflows at least as bad as and more likely worse than 2001 to 2006. The reason they are taking such an approach is that when it comes to basic services such as water it is less costly to take the risk of investing in extra capacity than to take the risk of under-investing and being short of capacity.

The situation facing all jurisdictions and their reaction to it is having a major flow-on effect, that of an extremely overheated construction market. As part of our advice to government, planning cost estimates were provided. Those costs were developed by engineering consultants based on the best market advice and extensively reviewed by independent quality surveyors. Typically, these construction estimates have an error margin of plus or minus 30 per cent.

In the four months since the estimates were prepared, there has been a further acceleration in construction activities in the water sector. You will have observed that around Australia there are multi-billion dollar programs being put in place. Accurate, predictable models that reflect potential engineering-type project cost increases over the next four years are very difficult for us to obtain. Up-to-date industry publications are rare, and those that are available point to a significant increase in committed engineering project values while depicting a limited level of engineering resources to deliver the projects.

Project momentum in the Australian water industry construction sector coupled with the related boom in the mining sector nationally is at an all-time high, with the volume of work exceeding the industry civil engineering construction capacity at present. Similarly, it exceeds the industry's human resource capacity. This is also impacted by a global increase in the sector in the past 10 years.

As a result, prices in the construction sector have risen significantly in both material and labour over this period, in particular in the water sector over the past two to three-year period, with the growing impact of the national drought. Very preliminary indications—and I do not want you to hold me to them, because we are getting further studies done on this and getting the data reviewed—are that prices for the delivery of major projects are likely to rise approximately 25 to 30 per cent over the next three years.

It is also important to note that our cost estimates do not include the cost of greenhouse offsets, an essential part of these projects. We do not know how this will affect our specific projects at this point. As I say, we got very good quality estimates and did include provision for contingency in those. We have gone out seeking requests for proposals and they are now beginning to flow in for both the design and the construction of the dam and related projects. We will not know—and obviously we will not be able to give—a firm price until that process is completed, which should be by the middle of next year.

So we face challenges. We are challenged by the uncertainties of climate change. We are challenged by an ambitious program of works the scale of which the ACT has

seldom seen before. We are challenged by the cost that ultimately Actew, the community or the government will have to bear. But the result will be a safer and more secure water supply. We believe that the strategy of the proposal will deliver that. Thank you.

THE CHAIR: Thank you very much for that statement. That will be incorporated into *Hansard*. In relation to the water abstraction charge, which went up from 25c to 55c, what was the impact of that on Actew and do you believe that it had any impact on the usage of water?

Mr Costello: The impact on Actew is that it is a cost to us that we are obliged to bear, and we recover that cost fully. So in effect it is neutral to Actew.

The impact of pricing on use? It is very difficult to judge that, for two reasons. One is that there is a debate about the elasticity of demand for water and pricing. It is not a simple debate; it is quite a complicated one and there are many different views about it.

Secondly, it is very difficult to work out the impact of the WAC as against the clear impact of water restrictions. There has been a very significant drop of water usage in this city. In our achievement in the ACT over the last five to six years, we are, I think, either the best or the second best in Australia. That is a really significant achievement—by the people of Canberra; I am certainly not claiming it for Actew although I will say that, since well before my time here, Actew and ActewAGL have engaged in an extensive education program which we believe is money very well invested and which we believe leads to significant results. We have had a significant reduction in our water use. To determine to what you can attribute that—the WAC increase, water restrictions or education—is a very hard thing to do in an accurate way. I simply work on the basis that, if prices do not have an impact on demand, we had better go back and start the study of economics again.

THE CHAIR: Let me go to the water reduction targets. In the statement of intent, you reiterate what came out of the think water, act water process, which was a reduction per capita in mains water usage by 12 per cent by 2013 and 25 per cent by 2023. Could you please report on any progress towards achieving those targets. Also, in the big midyear appropriation bill there was \$3.5 million set aside for consultants on water demand management. You can clarify that for me, if you would and could you indicate how that is—

Mr Costello: For us?

THE CHAIR: Sorry?

Mr Costello: Set aside by us?

THE CHAIR: By the government. It is in the appropriation bill. Perhaps it is something that Mr Stanhope can deal with.

Mr Stanhope: That is for environment. Actually we have done that.

THE CHAIR: That was in another committee. It does seem to be related to water and Actew so I asked it here. Any enlightenment you can give us on the topic would be useful. But back to you: how are you going on achieving those targets?

Mr Costello: Again, to what do you attribute various elements of the forces at work? We are way ahead of the 13 per cent—

THE CHAIR: The 12 per cent by 2013.

Mr Costello: The 12 per cent by 2013—we are way ahead of that; we are achieving over 20 per cent.

THE CHAIR: Are you going to ratchet up the aims then?

Mr Costello: That has been achieved. Again, to what do you attribute that? Do you attribute that to water restrictions or is it something that will continue on, as one hopes, when water restrictions, as one hopes, are one day eased? The answer to that question—the closest you can come to an answer to that question—is: the year 2006, when we lifted all water restrictions but put in place permanent water conservation measures. Even though that was all we had in place in the 10 months up until we imposed stage 2 restrictions, which was I think in October or November, our water consumption dropped by some 13 per cent. So it does seem that we are down the path of doing that well ahead of time.

As to getting to 25 per cent, there is a question mark about how to do that best. The question really revolves around how much it is going to rely on price, how much on regulation and how much on education. I think that it is going to be a combination of all three, but we do not control pricing issues; that is a matter for the regulator and we have to leave that to his judgement. These issues have been raised before him and he will make a judgement on them. It is not a judgement that we can make.

THE CHAIR: So far you have only referred to price mechanisms and regulatory mechanisms like water restrictions, but the think water, act water strategy included a number of other demand management strategies as well, and you have not referred to those.

Mr Costello: I can only refer to the things that I have some accountability and responsibility for. I am not accountable or responsible for those things. They are government programs to be run by government. If we were asked to run them—outsource—

THE CHAIR: You run water wise, though.

Mr Costello: No.

THE CHAIR: So Actew does not do audits—does not run that program doing audits?

Mr Stanhope: They are run by Environment ACT.

THE CHAIR: How do you work together on these things?

Mr Costello: We work in parallel. We inform each other of what we are doing. To the extent that we can help and we are asked to help, we do. But this is a government program run by the government and that is the current set of arrangements. We are responsible for making submissions on pricing. To the extent that that has an impact on behaviour, we set our views out there, but the regulator decides that.

On the question of restrictions, we impose restrictions when the water levels get to the right level. And the permanent water conservation measures, which we believe have had a significant impact, were an initiative of Actew—but a decision by government of course in the end. They have to weigh up various factors. I think that there is a review of water restrictions, including of permanent water conservation measures, to see if they should be changed, adjusted or made different. That will be an important review.

But as far as Actew is concerned, the thing that we do actively is a lot of education—ourselves directly and through ActewAGL. We have a major communications campaign which, as you can see, we undertake on the radio and television. That 20 per cent target in a way understates the—

THE CHAIR: Twenty-five?

Mr Costello: I should say the 20 per cent reduction we have achieved over the last seven years. That is just based on raw data as if it was a normal year when you would use about 65 gigitalitres of water. If you climate adjusted for it—that is, for the dryness of the years and the heat of the years—it would be the equivalent of over a 30 per cent reduction in what people would have normally used. So it really is a significant achievement by the people of Canberra.

THE CHAIR: It is. In relation to my confusion about the role of Actew and water demand management, how did Actew work in with the government water task force which was very much part of Water2WATER? That was a government task force, but Actew adopted some of its recommendations, I am assuming. How did they work together?

Mr Costello: I will ask Chris Webb to speak to this in some detail.

Mr Webb: The government established a water security task force based in the Chief Minister's Department during the period when we were running the process of Water2WATER. We worked extremely closely with that team. A number of structures were established under the water security task force. An expert panel on health was established. It was appointed by the government to provide independent advice. A water security program advisory group was also established. We gave regular reports on our work and our methodology during the process of Water2WATER. We reported on a fortnightly basis on the process to do with our community consultation campaign. At an administrative level, we were testing ideas the whole time. So it was really a collaborative effort. They recognised our roles and responsibilities in forming the technical advice that was necessary to form these recommendations, and they had a role in harnessing the whole of the ACT government—anyone with responsibility for these areas—to make sure there was a

coordinated approach.

We worked throughout July to form our recommendations to government. They took our recommendations and, in conjunction with the expert panel on health and the eWater CRC, which provided environmental advice, formed a response from government to our recommendations. It was a very tight collaborative process.

Mr Stanhope: It is a reflection of the fact that Actew is a statutory corporation. It has different reporting, administrative and statutory obligations from the public service. I take detailed policy advice from Actew in relation to its operations. I take advice on issues around the environment from the department of the environment. I take advice on issues around health from ACT public servants. I take advice on issues around cost, expense and financials from Treasury. That is at the heart of any consideration of a major investment of the order that we are discussing here. As Mr Costello has just said, we are talking about investment of somewhere between \$500 million and \$800 million. That has implications.

Whilst I welcome and respect the advice of Actew in relation to these matters, I take independent advice on all of the issues around the health aspects, for instance, of Water2WATER. The financial aspects of an \$800 million investment by Actew are something on which I desire an alternative source of independent advice or advice independent of Actew. That is the nature of the different arrangements. In the context of the overarching strategy in relation to water security, it is appropriate that Actew does what Actew has been doing, but that there be a related and closely meshed, separate source of advice to the ACT government and to me. That is essentially the basis of the arrangements we have put in place. Actew, at the request of the government, gives detailed consideration to every aspect of water security. The government has available to it, in addition to advice from Actew, a separate, independent source of policy, financial, health and environmental advice. It is rather complex but it is the underpinning reason for some of the complexity. It all worked extremely well on the day. It was a very successful collaboration.

THE CHAIR: Apparently so.

Mr Stanhope: With respect to this dual set of responsibilities, the government has requested Actew to play a lead role on issues around demand management. It has done that, as Mr Costello has said, in the first instance through the administration of a strict regime of restrictions. Under delegation, Actew determines different levels and rates of restriction, consistent with a framework agreed by the government. Actew has also accepted a lead role on education around the scarcity of water—the need for us to be responsible and to comply with restrictions. So Actew has taken a lead in relation to the administration of a restrictions regime, and it has responsibility for that.

Actew has also, at the request of the government, undertaken a significant education program on demand management. The public information campaign—and you saw the latest iteration of that recently, with the electronic billboards throughout Canberra—is a constant reminder to the people of Canberra that we are still faced with a serious situation in relation to water. That has been arranged and conducted by Actew.

The other arm of demand management is essentially the responsibility of Environment ACT in relation to the range of concessions, advice and audits. That has been conducted by Environment ACT. So the first arm is restrictions, which Actew is doing; the second is education, some of which the government does but Actew has accepted primary responsibility for that; and the third arm is more direct demand management in relation to concessions regimes and support and advice regimes. With respect to the point you made—and I will not take up time by going into detail—those are funds appropriated by the ACT government for the further development and expansion of demand management within Environment ACT.

MR MULCAHY: On page 10 of the report, you note, under “Water2WATER”, that the outcomes of the consultation showed that a large majority of the community appears to be open to the Water2WATER proposal. I had, thanks to the corporation, the opportunity, with the Chief Minister, of looking at what they were doing in Singapore. You are now going ahead and building a pilot plant, I understand, in terms of recycled water?

Mr Costello: We only have authority to prepare a design. The government has specifically decided not to agree to go down the path of water purification at this time. It needs more information. It has asked us, in order to ensure we do not lose any time if later on it does decide to go down that path, to design a plant. We have put out a request for proposals for that design to begin. The design process is something we have not done before. It is not something that is familiar to our engineers. It will take us at least a year to do that design alone.

During that period, we will be working very hard on the Tantangara transfer project and the other projects. If the Tantangara project works out well—and it is not going to be easy because there are very strong emotions and sentiments attached to acquiring those water rights down the river, as you would imagine, from the regional towns involved—that will have an impact, I guess, on the government’s judgement about whether and when to proceed even with building a demonstration plant, let alone going on to build a full plant. So it would not make sense to make a decision to go any further than doing design work at the moment, because it may not be necessary if Tantangara works and if we are able to make it work very well—or it may not be necessary straightaway. If some of the more gloomy forecasts—and there are some extremely gloomy forecasts about what we are facing here in the next 30 years—are correct, it may one day prove necessary for a government to decide to go down that path, and we need to be ready to proceed with it as fast as possible if they do. But we have certainly had it made very clear to us that there is no decision to even build a demonstration plant at the moment.

Mr Stanhope: That is the position that the government has taken. I noticed some media commentary in relation to this. The government has not dismissed or shelved Water2WATER or the possibility of proceeding with the construction of a water recycling plant. Some of the commentary around that does not reflect the nature of the position that the government has taken. As Mr Costello has said, expressions of interest are being sought for the design. There has been some discussion, and you mentioned the pilot plant idea. This is the initial stage, if the government were to decide that it might be appropriate, subject to what else happens.

One of the concerns with Tantangara, of course, is that there will be no water allocated within the system over a number of years. To some extent, we need to remain somewhat fluid in our capacity to change and to respond quickly, if, for instance, the drought persists. We are now feeling good; we have had a good four or six weeks and we are up to 43.8 per cent. We wonder whether this is the beginning of the end of the drought. Even then, our experience of two years ago, during a good year, was that the excitement at the prospect of the drought having ended was quickly dulled by entering into the worst year ever in terms of inflows.

I am not prepared simply to say, “We’ll build a new dam, we’ll build a new pipeline, we’ll continue to pursue vigorously Tantangara and we’ll just shelve this notion of water recycling.” I think that would be irresponsible. I believe we need to continue to do the work. If there are very poor outcomes in terms of rain or inflows over the next couple of years, we need to be able to say, “We haven’t wasted a year whilst we waited to see whether the Tantangara option was reasonable, realistic or achievable.” If a decision is required in the interim, while we pursue other options, I do not want us to look back and say, “We just wasted a year.” So I want the initial work to be done.

There is some debate about whether it should be a pilot plant or a demonstration plant, and there is consideration around whether, if it is a pilot or demonstration plant, it should be scalable. These are issues which are very much at the heart of submissions that the government has made to the National Water Commission for commonwealth support, funding and leadership in relation to a water purification plant for the national capital. So there is still a lot in the pot in relation to an ultimate decision. I am not prepared to say, “This is off the agenda, we won’t be doing this.” I want us to begin the necessary work and to firm it up. I am still looking for a response from the commonwealth in relation to its preparedness. I am hoping to have that over the next month or two. I think it is reasonable that we do that. These parts of the mix are involved in the decision-making process in relation to a water purification plant. It is still on the agenda.

MR SMYTH: Is there a cost attached to the project to develop the design?

Mr Costello: About \$5 million.

MR SMYTH: About?

Mr Costello: I do not have the exact figure.

Mr Webb: Our estimates are that it will be approximately \$5 million. As we are seeking, via requests for proposals at the moment, an alliance partner to develop it, the actual details of the cost will be worked through with the alliance partner. The industry estimate is that it will be about \$5 million.

MR MULCAHY: There are a couple of issues with respect to the Cotter enlargement. Obviously there might be a prospect of some commonwealth funding there—there might not be—which you said you are pursuing. Is that a live option? Can you tell us where the thinking of the corporation is in relation to the Tennant dam? I believe Mr Stefaniak floated the idea of building both dams. What do you think of the economics and appropriateness of those? Is there the population to support them?

Mr Stanhope: On the first issue, the application to the National Water Commission for support for all of these projects was via a submission made by the ACT government. We have not had a formal response yet from the National Water Commission to the suite of projects, although there have been many discussions between officials. Indeed, I have discussed these issues with Mr Ken Matthews. The applications are still live. We have not yet had a formal response. The commission has sent signals that it does not have a particularly positive view about the National Water Commission being a source of funding for dams as such. I am not going to lie down and die and suggest that it is all over until I get a formal response. But I must say—

MR MULCAHY: You are not optimistic?

Mr Stanhope: Yes. The ACT government has not been led to believe that it should be feeling optimistic about National Water Commission support for funding of a dam. I think it sees that as a responsibility of governments and utilities. Mr Costello can respond to issues around the construction of Tennant.

Mr Costello: I will ask Chris Webb to add to anything I have to say—and, indeed, even to correct it, if I get it wrong.

MR SMYTH: Could you, in your answer, tell us how you intend to fund the dam—the Cotter update?

Mr Costello: We intend to fund all of this. Unless we do get some commonwealth funding through the water commission, we will be funded by borrowings, which is the normal way to do it. It spreads the cost of an asset that will last, in the case of a dam one would hope, for at least 100 years over a number of generations instead of this generation—indeed, not just a generation—having to bear the whole cost of it at once. That is the normal way to fund long-range, long-lasting assets like this, and that is what we plan to do.

The Tennant dam would cost around \$300 million. That is the estimate we gave in the paper we put up, subject to all those qualifications I will put about the current state of the overheated market. That is the best estimate we were able to get, as against the \$148 million or \$150 million for the Cotter enlarged dam. The yield of water from it would be about the same, and the reason for that is that, although it is a much larger storage capacity, the actual inflows out there are far lower than they are from the Cotter historically.

Indeed, if you look at the last six years, even though the flows in Googong and Naas, or Tennant, are dramatically lower than the flows of water that go into the Cotter system, the reduction in the flows of both of those over the last six years has been in percentage terms far worse. They were already a lower base and the reduction in flows has been far worse and the Tennant, the Naas, has been the worst of them all for reduction in flows.

So it is problematic from a comparative price point of view and otherwise. The Murrumbidgee is a far more reliable flow. By tapping into that at a cost of \$70 million instead of \$300 million, and keeping the Googong dam topped up to around 85 per

cent or 90 per cent, as much as we can, is a much better way to go. It is not up to us, but we have never proposed taking the Tennant dam off the list. The reason for that is that in 30 years time someone may have a different view and there may be different needs and we do not think that should be prejudged; at least that is our point of view. Those are decisions for others than us, but we would like to see it kept alive, just in case.

There are very significant difficulties with Tennant aside from those matters that I have just mentioned. It is very shallow. Once you get out of the gorge, which takes about 48 gegalitres, and it spreads out for the rest of what would be the dam, it is an extremely shallow incline. It would be a very shallow dam that would take up a huge expanse of territory out there for relatively little water with a very high evaporation rate. I think all this is correct, is it not?

THE CHAIR: It has all been said.

Mr Costello: It would take a long while to fill. In terms of speed of building it will take some time because, you will not be surprised to know, there are extraordinarily strong views about whether that dam should be built, not only from those who occupy the land and use it at the moment; on environmental grounds it is one of the areas of yellow box. It would be not a straightforward matter in environmental and other terms to get it done.

MR MULCAHY: This rather novel idea of building both dams: what do you think about all that?

Mr Costello: I think it is quite unnecessary, Mr Mulcahy, at the moment because, if we end up with a population of 750,000 or a million, maybe people would turn their minds to it; but, unless we are facing a complete disaster and wipe-out of the climate here, which may mean Canberra is uninhabitable—and I hope and presume that is not the case—what we have put forward will meet the needs of a population of half a million people by 2030.

THE CHAIR: I think we are going to have to call a halt there, unfortunately. I just let you know that there may be some supplementary questions come through the secretary. Thank you in anticipation, and thank you very much for coming and talking to us this morning. It is always a really interesting issue and of course you will be asked to comment on the transcript in due course.

Meeting adjourned from 11.16 to 11.34 am.

THE CHAIR: We are considering the Treasurer's portfolio. I would like to draw your attention to the privilege statement on the yellow card lying on the table before you and to check that you are fully aware of and understand the privilege implications of that statement. The statement will be incorporated at the beginning of the *Hansard* transcript.

We have seven agencies to get through in an hour. I believe we do not have the Nominal Defendant here; is that right? As no-one has questions for the Nominal Defendant, that reduces to six agencies for an hour and that means about 10 minutes

each.

MR MULCAHY: I do, but I will put it on notice.

THE CHAIR: Thank you. I do not think we have the Nominal Defendant here anyway. Are there any areas that members of the committee do not have questions on?

MR MULCAHY: I have some everywhere but they are not lengthy.

THE CHAIR: Therefore I cannot excuse any of the officials. We will start with the ACT Government Procurement Board. I asked this question in the Assembly last week and the Chief Minister was not able to answer at that time so, given that we have members of the procurement board here, could you please indicate what measures you are taking in order that the government can carry out its commitment to procure only barn and/or free-range eggs for all ACT government related purchasing?

Mr Stanhope: Thank you, Dr Foskey. As I indicated the other day, the government is following through on all of the commitments that it made in relation to the issue of cage-produced eggs. As you mentioned, Dr Foskey, one of those undertakings was that we as a government would ensure that in relation to our own operations and our own activities, most particularly at the CIT in relation to chef-ing and the use of eggs by the CIT, and the use of eggs in public facilities operated by the ACT government such as the hospitals, we would phase out the use.

I must say, Dr Foskey, that since you asked that question I have not yet received advice on exactly the current status of that particular undertaking. I know that at the time I made the undertaking I wrote to each of my ministerial colleagues about their particular areas of responsibility. As you say, I took the question on notice. I do not have that advice available to me. I am not sure whether the procurement board will be able to assist. Perhaps Ms McKinnon, as the deputy chair, or Ms Hardy, as the executive director, may be able to assist you.

Ms McKinnon: From the procurement board's perspective once the procurement process is underway the procurement board will be able to assist in those processes, but I will have to defer to Robyn Hardy from ACT Procurement Solutions for the strategy behind that.

Ms Hardy: There are a number of food contracts that are currently on foot for ACT government procurement and we are in the process of investigating those to see what can be done in relation to any amendments to meet that kind of commitment.

THE CHAIR: Thanks. Given the time, I will stop myself at that one question.

MR MULCAHY: Thanks, chair. How has the board adapted to the changes to the Government Procurement Act and to the legislative criteria for procurement introduced into that act?

Ms McKinnon: The board has worked actively with ACT Procurement Solutions over the last 12 months, since the review was conducted in 2006 and then the

legislation has taken place. The board has adapted to the changes and the requirements of it. We have had our own planning meeting so that, as reported in our annual report, we look at a more strategic focus. We have been able to work with Procurement Solutions about some of the issues that have come up over the last 12 months and suggested some changes and some improvements.

MR MULCAHY: Any big issues?

Ms McKinnon: I would not say big issues. One of the things we have worked on with Procurement Solutions was a change to risk assessment, and I think we have done some very good active work with Procurement Solutions on that. New guidelines and a new circular are being produced about that, so we have put more emphasis on that, and that has been one of the things that the board has been able to really assist with.

MR MULCAHY: The other area I just want to touch on is how the board has adapted to the legislative inclusion of ethical criteria in procurement. Have there been any instances of procurement involving difficult ethical judgements and, if so, what were they?

Ms McKinnon: I might have to ask for some assistance from Robyn here. I think that the board, with the ethical legislation, has taken that on and I cannot recall, in my time with the board, any major issues that we have encountered or issues that we have encountered but not been able to work through with any of the parties.

MR MULCAHY: I raised this in the Assembly. I have even sought to amend the legislation. So you have not had an example where that ethical factor has come into account?

Ms McKinnon: I do not think so.

Ms Hardy: No. Basically, we have not had an issue, as far as I know, where a prospective tenderer has been considered inappropriate or unethical, if that is the kind of question you are asking.

MR MULCAHY: That is where I am heading, yes. Thank you.

THE CHAIR: Is there a set of guidelines to check that?

Mr Stanhope: It is in the legislation.

THE CHAIR: You apply those? They are applied?

Ms Hardy: We are currently refreshing all of our guidelines in response to a number of changes in legislation. Yes, we do have a circular which explains how we implement the ethical suppliers legislation and principles.

THE CHAIR: Thank you. There will be some supplementary questions—you realise we are rationing ourselves here today—so thank you in anticipation of those answers.

The Gambling and Racing Commission is next on our list. It is not discussed in the

report but I was hoping that you could express how effective you think the incentives scheme of \$4 for \$3 was for problem gambling. This is in relation to community contributions.

Mr Jones: Based on the women's sport incentive scheme, which is of the same order, a \$4 claim for a \$3 contribution, in the early days it had a little bit of a mixed reception but it is now producing some fairly reasonable results. In some ways, the problem gambling one is one of focusing the club's attention on that scheme. We think it has done that already in part of its development due to the fact that the club industry has significantly boosted the contribution rates and the participation in the clubcare program, which are the arrangements they have with Lifeline.

It has gone up from 11 participating clubs six months ago to 23 clubs now. The funding has increased by something like 30 or 40 per cent. It is now a three-year commitment of about \$900,000 over three years. There is a significant boost of the industry's contribution parallel to the government's scheme.

The short answer to your question is yes, we think it will be effective and we expect the industry to take up the challenge of taking on the responsibility, as they have done in the past.

THE CHAIR: If it is not as effective as you hope, would you be prepared to advise the government and suggest changes?

Mr Jones: Obviously, with our annual community contributions report, we will be monitoring the contributions very closely and separately reporting on those so that the government and, in fact, the Assembly can make a judgement on its effectiveness. Between the commission and the policy area of Treasury, yes, I think there will be lots of advice available to the government, should it so choose.

THE CHAIR: On page 19, under the heading "Social impact assessments", it says that you undertake detailed social impact assessments when granting additional licences for gaming machines. Are these publicly available?

Mr Jones: Yes, they are. The social impact assessment is, in fact, a public consultation process. Every time either a new licensee seeks a licence or an existing licensee seeks additional machines, they must go through a fairly rigorous social impact assessment. They must produce a report to the commission. The commission verifies it is compliant with the legislation. Then that social impact assessment is made available for a six-week public consultation period. Our legislation also requires the commission to accept submissions and take any submissions made as part of that process into account in making its final decision on either the issue of a licence or additional machines.

THE CHAIR: There is reference to some minor breaches, on page 17—650 of them—of serious gaming machine procedures. There are 11 of them. You only report on the outcome of one. Could you please indicate any results in relation to the other 10, particularly the admission of a minor? Was there a prosecution and other sanctions against other offenders?

Mr Jones: If I deal with the minor first, that was an interstate guest as part of a family which visited the restaurant, which is on the main gaming floor of the casino. The security officer at the front door of the casino did not ask for ID, basically as they were part of the family, and made an assumption that they were over the age of 18, which was incorrect. As it turned out, the person was under 18.

A warning was given, certainly to the casino, to smarten up its procedures, which it has done. The licensee has reviewed its procedures. The particular individual involved received a strong warning from the casino licensee, which was followed up by a similar warning from the commission.

THE CHAIR: What about the other nine cases?

Mr Jones: In terms of the two breaches relating to the prescribed functions, disciplinary action was taken against the casino licensee for those, by way of a reprimand, which is a warning. In relation to the seven breaches relating to the failure to conduct operations within the approved control procedures, written warnings were given on those because they were more of a minor nature.

The final one, the breach of section 85 relating to a casino official allowing an excluded person to enter the casino, that involved, in fact, the general manager of the casino. The commission suspended the general manager's licence for a period of four weeks as a casino employee.

The general manager appealed that decision to the AAT. The AAT reduced the suspension from four weeks to one week but maintained the suspension of his licence because of that breach. The casino licensee, I guess via the parent company, soon after that terminated that employee.

MR MULCAHY: Following that issue with the general manager, why had the person who was the subject of this section 85 breach been excluded?

Mr Jones: It was a behavioural issue. His behaviour was certainly unacceptable. I can give you more details if you like.

MR MULCAHY: I was curious as to the nature of it. I did not know whether it was a problem.

Mr Jones: It was an alcohol-related behavioural issue; it was not a problem-gambling issue or a theft or anything like that. It was a bad behaviour issue.

MR MULCAHY: I note that the AAT was critical of the evidence of the general manager in his appeal. How is the relationship going to be affected, going forward, between the casino and the commission and future assessment of the casino's operations in the wake of this saga?

Mr Jones: The parent company obviously took this matter extremely seriously, as we would hope that they would. Two of the senior staff, one of which was the general manager, no longer are employed at Casino Canberra. Both have been replaced in the last three to four months with new personnel. During this period we worked very

closely with the parent company so that the licensee could move forward on that. We were supportive of the casino taking the tough step of terminating two of their most senior executives. The working relationship that we have now is probably significantly better than it was 12 months ago.

MR MULCAHY: On page 19, it says that the application from the Hellenic Club of Canberra for 23 additional machines was refused due to reaching the cap of 5,200 machines. There were only 5,179 licensed machines, as reported at page 18. I am wondering about the discrepancy. Could you tell me whether there are people who have licences that are not using them? I am wondering why the commission could not have approved some of the Hellenic Club machines to bring the number of machines up to the cap and kept the rest of the application pending?

Mr Jones: The first issue is the actual timing. The consideration for the Hellenic Club was, in fact, just prior to the end of the financial year—I think it was early June—where the actual cap of 5,200 had been breached. Literally, there was zero available.

Two days before the end of the financial year, I think 29 June, Eastern Suburbs Rugby handed their licence back in, with 21 machines. For reporting purposes, right at the last minute, there were 21 machines available. The Hellenic Club maintained their position as No 1 in the queue for the next available machines. In August, I think, we got some updated information from them. We reconsidered their application and they were granted the 21 machines, which was all that was available at the time.

MR MULCAHY: Finally, on page 53 of the report, the commission sets out the balance sheet of the commission. There has been a substantial increase in the net assets of the commission beyond the budgeted level, due largely to higher than expected cash and cash equivalents and higher than expected receivables. It has not been matched by an increase in tax revenue payable to the government. Can you explain to this committee why this has occurred?

Mr Jones: The increase in the cash and the cash equivalents was an underexpenditure, from an operating point of view, from two significant one-off events. The first one was that there was no research committed with ANU in that year. Normally we commit about \$200,000 a year in research with ANU. There was none committed in that particular year. The rest of the savings was that we had our lotteries application IT system revamped during the year, which saved us about \$180,000 in IT costs which, with our new system—

MR MULCAHY: On lotteries, is this your monitoring of sales?

Mr Jones: It is an issue of local permits. We issue something like 6,000 trade promotion and raffle permits each year, which is an enormous workload, which is on a very large data base. It had reached its capacity. There were savings in that as well. We were slightly understaffed due to staff turnover issues during the year. There were some employee savings as well.

MR SMYTH: On page 5, it talks about an expected broader review of the ACT racing industry. Has that gone ahead?

Mr Jones: It started and then, effectively, stalled. There was some background work done on it. I guess events overtook that review, partly the EI issues where the whole industry was in a state of flux and was significantly distracted, I think you could say.

Also, some of the issues collectively, between Treasury and the commission, involved some policy decisions dealing with the betting exchange issue, it being licensed in Tasmania. Also, there was the protecting of intellectual property of local racing clubs and either charging for or restricting access to publication of race fields.

Western Australia put in some legislation about six months ago. That is currently under challenge in the High Court. In fact, the final hearing of that challenge was yesterday. We are expecting a decision in about five months, in about April or so next year.

There are a lot of significant issues which will impact on our local racing industry and where our legislation needs to move forward to, I guess, bring it up to date. I guess that resulted in that review needing to mark time a bit so that we can catch up with these other issues and get some answers.

MR SMYTH: It will recommence when the finding is handed down by the court?

Mr Jones: I would imagine so. There are a number of issues dealing with the racing industry and moving forward in terms of its funding through the Racing Development Fund and things like that, which will need to be looked at. It is a matter of priorities at the time, but certainly at some time in the future it will need to be looked at—whether it be immediately after the High Court decision—but I guess it is going to depend on the result in the High Court and how definitive that is going to be.

MR SMYTH: On page 7, you say, in the first paragraph, that the amount of gambling revenue received by the commission depends directly on the level of gambling undertaken in the territory. What has the effect of the outbreak of the equine flu been on the revenue coming to the government?

Mr Jones: It has been very changeable, depending on what races are available. Given that they are now coming on stream, the impact has now significantly recovered, I suppose. Overall, we are looking at about a five per cent decline.

MR SMYTH: In dollar terms, that is how much?

Mr Jones: I do not have that figure. It probably depends on whether you are talking to ACTTAB alone or Sports Bookmaking, which is affected as well.

MR SMYTH: Can you take that on notice?

Mr Jones: Sure.

THE CHAIR: Thank you for your evidence, Mr Jones. There may be some supplementary questions coming your way. There will be from me, anyway. We now turn to ACTTAB. You sold a couple of premises during the year, including Dickson. That was an office building and there was a shopfront as well?

Mr Curtis: Two premises were disposed of during the financial year. The first was our headquarters and retail facility at Dickson. The second was a retail facility at Jamison. The net gain on sale from those two premises was \$3.86 million for the headquarters and \$0.23 million for the Jamison site.

THE CHAIR: How does ACTTAB treat those sorts of injections of capital? Is some put aside for rainy days?

Mr Curtis: A little bit has been put aside for a rainy day. In this business it is necessary to maintain the latest technology. There has been little put towards capital infrastructure over the last five or six years. ACTTAB is planning to undertake capital expenditure of somewhere in the order of \$5 million to \$6 million over the next five years. That will include replacement of the current betting system and the selling terminals in each of our outlets.

THE CHAIR: You say on page 2 that there has been a decline in VIP turnover but an increase in retail and account betting and in the overall profit for ACTTAB. What does this mean in terms of revenue sources for ACTTAB? Does it mean you are getting more from smaller gamblers? Could you explain how the mix now looks?

Mr Curtis: A large part of our turnover is derived from the VIP sector. These are professional punters, and include corporate bookmakers. Some are located in the ACT; others are interstate. Our operating revenue for the financial year was down \$1.73 million as a result of the loss of our largest VIP customer.

THE CHAIR: Who was that?

Mr Curtis: I don't know whether it is appropriate to name the people involved. Negotiations have been taking place with those operators. They were a corporate bookmaker located in another jurisdiction. However, we have been unsuccessful in attempting to lure them back to the ACT. The board has recently put in place a regime which we believe will protect our current customer base and hopefully grow it. Although, unfortunately, we have been a victim of the equine influenza outbreak in New South Wales and Queensland of late, the return to racing in the last couple of weeks in the metropolitan areas of New South Wales and Queensland has seen encouraging growth in turnover as racing returns to normal. To illustrate that, last week we probably had our largest weekly growth in turnover, certainly in the two years that I have been with ACTTAB. Racing turnover went up by \$450,000 last week. That is a significant figure, and a lot of that was attributed to the VIP sector.

THE CHAIR: Coming out of a racing drought.

Mr Curtis: We have not been impacted to the extent that colleagues in New South Wales and Victoria have been. It was reported recently that Tabcorp have seen a downturn in turnover in the order of \$350 million as a result of equine influenza. At the latest count we were about \$2 million down. I think to some extent we have been shielded by the fact that we sit in the middle of Victoria and New South Wales, and our punters are more inclined to spread their money across all jurisdictions rather than any one in particular.

THE CHAIR: Obviously the amounts are much larger in Victoria and New South Wales but proportionally we compare well, do we?

Mr Curtis: Yes, we do. I am confident that, by year end, our figures will be in the black again. This was just an unfortunate and unforeseen hurdle.

THE CHAIR: That you need to foresee.

Mr Curtis: We will in the future.

MS MacDONALD: Can you tell me how the transfer across to the new headquarters has gone? It has been talked about since before I was in this place, so I am interested to know how smooth or otherwise the transition was.

Mr Curtis: It was not without its problems, which were reported in the local media. Largely, those problems were technological and were brought about by the fact that we had to replicate our systems at the new headquarters and then switch them across. There were issues related to telephone lines and speed of communications, and equipment not matching the potential speed that was available through new technology. However, I am pleased to say that those technology problems have been overcome. I think all of the system issues have been resolved. They had minimal impact in terms of down time. The down time was not uniform. There were bugs in one area and they were not being replicated in another area. When machinery was brought back to be tested in a laboratory situation, those flaws were not able to be replicated, so it was a headache for the head of the technology division. As I say, those problems have been overcome and the staff have settled into the new headquarters well. It is a work environment that is conducive to the production of results. From what I gather, everybody is very happy with the move.

MS MacDONALD: Dickson was in some ways quite a central location and easy to get to. There was some disquiet, certainly from the casual staff working in the telephone betting operations at one stage, about the move to Gungahlin. Can you talk about how things are going in terms of staff in the building?

Mr Curtis: To my knowledge, we have only lost one staff member as a result of the move to Gungahlin, and that was a lady who was our longest serving employee, who had been with the organisation for over 40 years. I think the move to Gungahlin was probably just one factor in her decision to retire. That has probably been the extent of the impact. Others are happy; even those that live on the south side of the city find the road system easy to traverse. In fact, some have reported it is even quicker to get to Gungahlin than it is to make their way through the city from the south side. There are no issues at all, really.

THE CHAIR: They don't come by bus, I take it.

MR MULCAHY: On page 4 of the ACTTAB annual report, under "fraud prevention", it refers to two instances of attempted fraud that were referred to the AFP. Can you elaborate on the nature of those alleged acts of fraud? Was anyone inside the organisation implicated? What was the outcome of the police action?

Mr Curtis: From my recollection, both those matters were as a result of customers attempting to defraud the organisation. I don't believe police action was taken in either instance. However, we are in the process of pursuing an ex-customer through small claims to—

MR MULCAHY: Why didn't the police do anything about it?

Mr Curtis: Probably because of the size of the frauds involved. I think the largest was probably \$2,000.

MR MULCAHY: So if you don't defraud too much, you will probably get away with it.

Mr Curtis: No, I think it probably reflects the extent of the workload that the AFP have and how they prioritise those matters. In both instances, I am certain that no police action was taken;

MR MULCAHY: On page 51, under the heading "Provision of responsible gaming", it is stated that a person was excluded from gambling at ACTTAB on the basis that the gambling contact officer formed the opinion that the welfare of the person or the person's dependants was seriously at risk because of their problem. How do you form that opinion? There has always been a reticence in the gaming and wagering industry to start passing judgement on people's circumstances. Are you familiar with that example and how would you have reached that view?

Mr Curtis: Yes. In this particular example, the person involved is probably well known to anybody that frequents the city. He is a fellow who is often seen begging for money. From what I recall, there may be some mental dysfunction involved, so the gambling contact officer made a decision that that was a factor that needed to be taken into account.

MR MULCAHY: It says also there were six deeds of exclusion made as a result of the persons concerned approaching ACTTAB staff and requesting assistance with a gambling problem. Typically, how many people in a year are you getting who would come in under those arrangements?

Mr Curtis: Probably no more than that. In fact, I think the numbers have recently dropped. On average, half a dozen would be the extent of it. That has come about as a result of our affiliation with Lifeline, as part of the Clubcare program, the display of gambling contact information and the provision of counselling services through our retail outlet. So it is a matter of people seeing the promotional material, being aware that assistance is available and seeking that through our staff.

MR MULCAHY: The last area I would like to go to relates to page 55 of the annual report, which sets out details of sponsorship agreements. In light of the sponsorship problems that have emerged in Rhodium—and we may have asked you this in another context; I am sorry if I am covering old ground—what sort of procedures do you have in place to assess the commercial benefit from sponsorship arrangements?

Mr Curtis: There is a board policy in place which I recall providing to the committee, perhaps at the Rhodium hearing, which takes account of a number of criteria, including benefits to the corporation in decisions being taken regarding any particular event or application that might be made to the corporation to become involved in a sponsorship.

MR MULCAHY: Who are you trying to tempt over with your sponsorships and what sort of research do you have on the demography of gamblers that might lie behind your decisions as to what you sponsor?

Mr Curtis: We believe the growth area in terms of the future of wagering lies in sports betting. That is probably where our focus is—trying to form affiliations with organisations that we believe may be of value in growing that market.

MR MULCAHY: How would ACTTAB derive that sort of commercial outcome from sponsoring the Live in Canberra campaign or the Chief Minister's command performance?

Mr Curtis: In both those instances, as an employer in the ACT, and having a number of staff in the technology area, in which, over the last two years, we have had a great deal of difficulty in recruiting suitable personnel, we thought there was some value in becoming involved in the Live in Canberra campaign and moving to Canberra.

MR MULCAHY: You just told Ms MacDonald you only lost one person.

Mr Curtis: These are unfilled positions that have been on the books for a couple of years. We are talking about programming and like positions. In fact, through the Live in Canberra program, we were successful in attracting an applicant who was on the verge of moving; however, I understand that has fallen through because of a better offer in Sydney. We believed there was value to be derived to the organisation through involvement.

MR MULCAHY: What has that cost you?

Mr Curtis: Each phase has cost us \$10,000. It is a minimal investment, I think, if we are successful in recruiting suitable personnel. But thus far, we have not.

MR MULCAHY: And the command performance?

Mr Curtis: The command performance was used more as a reward for some of our VIP customers and related guests.

MR MULCAHY: So you saw that as delivering commercial benefit. How much did that set you back?

Mr Curtis: \$2½ thousand.

MR MULCAHY: It was basically free tickets for your VIPs?

Mr Curtis: Purchasing tickets, yes. Part of our incentive and reward program is

issuing tickets to any number of events that might occur in the ACT.

THE CHAIR: Thanks, Mr Curtis, but we need to move on.

MR SMYTH: I will put my questions on notice.

THE CHAIR: You are welcome to do that through us. We move to the ACT Insurance Authority. Thanks for waiting so patiently, Mr Matthews. I do not have any questions prepared myself. I am wondering if Mr Mulcahy does.

MR MULCAHY: I do. Mr Matthews, on page 22 of the annual report I notice that the claims expense was \$54 million, substantially higher than the budget claims expense of \$30 million. Can you help us understand what this was caused by? Was this the rainfalls or hail storms—flooding—last summer? If that is the case, I am wondering if you could give us a little more detail as to what those storms cost in terms of payout.

Mr Matthews: The storms certainly did influence our year and are one of the major items that caused our claims to go out. Let me attack the question in the reverse order to the way you asked it. The gross cost of the storm claims is something like \$12 million, so that is only part of the claims burden. The other changes that we have had through the year are revisions to our medical malpractice claims outstandings. Those two pretty much cover it.

MR MULCAHY: Revised upwards?

Mr Matthews: Revised upwards. Some of this is on increased medical evidence. Most of our large claims are bad birth claims. Sometimes it takes a considerable time for the condition of the child to stabilise so that we are able to get some sort of accurate picture of what the future costs will be. Most of the costs are for future care of the child. The other thing that has changed a bit is that our public liability claims have developed at a greater rate than we anticipated.

MR MULCAHY: What is driving that? Is there any particular area?

Mr Matthews: The public liability claims?

MR MULCAHY: Yes.

Mr Matthews: Particularly ACTION buses, where we get a considerable number of claims and even a small claim can be \$40,000 or \$50,000. We have had a couple of large ones that go into the hundreds of thousands of dollars. It is a frequency problem rather than a severity problem.

MR MULCAHY: When does the reinsurance kick in—at what dollar value?

Mr Matthews: On liability it now kicks in above \$5 million for each and every claim. We used to have an annual aggregate, but after the bushfires reinsurers were not too anxious to continue with that so we now pay the first \$5 million on any claim. So, apart from major incidents like a bushfire, we would expect to pay all claims out of

our net account.

MR MULCAHY: Is all of this ongoing litigation and so forth for the bushfires addressed under the previous claim or have you now got greater exposure?

Mr Matthews: That is under the previous claim.

MR MULCAHY: So your exposure still sits at \$5 million in relation to the bushfires of 2003 and subsequent litigation.

Mr Matthews: Yes.

MR MULCAHY: The other thing that is a bit curious is on page 23 of the annual report. The authority has liabilities exceeding assets by some \$22½ million.

Mr Matthews: Yes.

MR MULCAHY: How does this issue impact on your solvency and, if you have a model, how does that compare with, say, private insurers—as to how they would operate?

Mr Matthews: It is a very different situation from that of a private insurer. For us, our solvency is really government solvency, not that of the authority itself.

MR MULCAHY: Of course you always have the backstop of the territory to save the day.

Mr Matthews: Yes, and that is what we rely on. As much as possible, we try to comply with APRA's requirements, but the one that we do not follow strictly is solvency, because, as you said, we have a backstop of government.

MR MULCAHY: Why is the insolvency issue so dramatic here with ACTIA? Why are you so far out in the relationship between assets and liabilities?

Mr Matthews: Simply because we are trying to restrain premiums, and that restraint gets us into the situation where we are not covering the liabilities of the claims generated by the agencies.

MR MULCAHY: So the premiums you are collecting from agencies are falling substantially short of the mark of the claims?

Mr Matthews: “Substantially” is probably a bit tough.

MR MULCAHY: Well, \$22½ million is not exactly pocket money, is it?

Mr Matthews: That is a cumulative figure. As we go forward, we are hoping, if we get risk management in agencies to improve, that we will be able to smooth some of this out over time. We have total claims reserves of some \$160 million, and many of those claims will not settle for many years. The theory is that, if we can get our risk management in place and start to reduce agency claims, we will not need to continue

to fund so much of the shortfall.

MR MULCAHY: We have had that discussion in the last several years, I think, from memory.

Mr Matthews: Yes.

MR MULCAHY: You keep telling us that it is going to be fixed, but from reading these figures here it does not really look as though you have got a result.

Mr Matthews: Yes.

Ms Smithies: We should also remember that the history sitting behind the portfolio is also very young in comparison to other jurisdictions that have been handling these sorts of issues for a long time. As a territory, we are still gathering information, gathering claims experience—systems, processes, et cetera. All of these go to the original setting of the premium back when the insurance arrangements were introduced. It was always going to take a bit of movement across the years to understand the underlying movements of that particular premium and the claims experienced across all sorts of agencies.

MR MULCAHY: Are you using actuarial assistance to get it right?

Ms Smithies: We do.

MR MULCAHY: So we would expect that agencies will have a substantial increase in their premiums going forward to get this balance right if you want to be seen to comply with the APRA requirements, would we not?

Ms Smithies: That is one way of doing it. I guess that one of the things that Mr Matthews has referred to is the whole issue of carrot and stick. If we upped the premiums out to agencies moving forward, recognising that perhaps we have not set the base funding to agencies in the first place on a proper and historical level, we would probably need to reset the base for agencies and then on top of that make sure that there is a regime in place that rewards good behaviour and punishes bad behaviour in a financial sense across agencies. That is a lot of the work that Peter is doing. That is one thing in relation to the macro financials, but also there is the other issue around working with agencies and trying to engage them on good risk management processes.

MR MULCAHY: Do you think that we will be having the same chat next year?

Mr Matthews: I am an eternal optimist, but I think that to some extent we will. This is an issue that is ongoing. The aim is incremental improvements in performance.

MR MULCAHY: But it is going the other way, isn't it?

Mr Matthews: At the moment it is, yes. We need to turn it around. One other factor that we have not mentioned is that the courts in the ACT are far more generous with our money than any other jurisdiction in Australia. That has impacted on us greatly. In

relation to bad birth claims, we have said that our base number is \$10 million. For anywhere else in Australia, it is six. Whilst there has been a lot of work done on tort reform, that has had very little impact in the territory.

THE CHAIR: Thank you, Mr Matthews. I hate to hurry you off the stage, but we need to move on to EPIC. I know that Mr Smyth has questions on this and I am sure that other committee members do too. I have one question. Mr Sadler, on page 9 you mention that there is a master plan submission that the government is considering. Could you either make that available to the committee—which is the preferred option—or give a very brief outline of what you are putting before the government. Secondly, you talk about expansion. I am interested in the progress of the farmers market, which I believe has had astounding success, and what capacity there is for it to grow in the current physical environment.

Mr Stanhope: I will refer to Mr Sadler in relation to that. In relation to the master plan submission, I must say that I would probably need to take some advice on that and I will be guided by Mr Sadler to some extent about the nature of that document. The government, with assistance from EPIC, is putting together a detailed response to the master plans through a cabinet submission which I anticipate cabinet will be considering by the end of January or in the first week of February in relation to issues around the long-term direction and development of EPIC. I do not know whether the master plan itself—your interest is in the master plan itself, is it, Dr Foskey? I would imagine that we would be able to make that available to you.

THE CHAIR: I am also interested in who has had input into it and whether—

Mr Stanhope: Sure. I will leave that to Mr Sadler. I am sure that we would be happy to make the master plan available to the committee. It is being used to inform a cabinet submission which is currently being prepared across ACT government agencies.

THE CHAIR: Do you want to add anything to that, Mr Sadler?

Mr Sadler: I do not think so.

THE CHAIR: Anything on the farmers market?

Mr Sadler: The farmers market—

MR SMYTH: If we can look at the master plan, at estimates in July we were told that block 751 would be progressed through cabinet by September. Has block 751 been made available to EPIC yet so that you can actually carry out the master plan?

Mr Sadler: The cabinet did discuss the issue in September. Obviously it included block 751 Gungahlin. They have deferred the decision pending more information that they required—from ACTPLA in particular.

MR SMYTH: This has been going on for several years, though, now. We have regularly asked about it in estimates and annual report hearings. When will a decision be reached on this, Chief Minister?

Mr Stanhope: I just said. Cabinet will be considering a submission in either January or February—and may or may not make a decision at that time.

MR SMYTH: Why is it taking so long? It has been going for two or three years now.

Mr Stanhope: These are serious issues; they require serious consideration.

MR SMYTH: What is the cabinet's angst with giving EPIC—

Mr Stanhope: Cabinet has not made a decision. Cabinet has no angst; it is giving serious consideration to an issue.

MR SMYTH: For three years?

THE CHAIR: We are not gaining from this line of questioning.

MR SMYTH: Absolutely not, and EPIC is not gaining either.

THE CHAIR: Farmers market?

Mr Sadler: Farmers market, yes. Over the three years that it has been running, it has expanded considerably both in the number of stallholders and in the number of customers that are coming there. The future of it, to some degree, obviously rests on the facility's expansion and that type of thing. Once we know the cabinet decision, we will sit down with the Hall Rotary Club, who sponsor the market, and work out a future format for the progress of the market.

THE CHAIR: I just observe that the annual report is written on one side of the paper only. I wondered if you might look at that again next year.

Mr Sadler: It is probably one of the problems of doing it in house.

MR MULCAHY: My only issue is about block 751. Obviously, I will wait with keen interest to see what happens.

MR SMYTH: I have two questions. The first is this. The chair, Mr Acworth, has signed various documents throughout the report. His signature appears on page 1, 7, 29 and 64. The signatures on page 1, 7 and 29 are the lovely copperplate Brian Acworth signatures, but the signature on page 64 is significantly different. Is it the wrong name block underneath or has somebody else signed page 64 for Mr Acworth? They are significantly different.

Mr Sadler: No, that is definitely Brian's scribble in a hurry, I would suggest.

MR SMYTH: That is the quick signature?

Mr Sadler: I have seen that version. I have seen both versions.

MR SMYTH: On page 22, it talks about the governing board. Section 8 of the EPIC

act requires that the board consist of a chairman, a public servant and not fewer than seven and no more than nine members. The board should therefore be either nine or 11 members. I note that during the year there have been only six members of the board. Is there a reason for the board not operating in compliance with its act?

Mr Stanhope: It is. There are currently nine members. There was a period as reflected here, but there are currently nine members of the board.

MR SMYTH: Why was it allowed to operate with only six members, in breach of its act?

Mr Stanhope: I think the circumstance was that a person who had been approached to be a member at the time of an anticipated retirement or vacancy agreed, accepted and withdrew as a result of the fact of refusal by her employer to allow her to be appointed. That put us behind.

MR SMYTH: That would have taken it from six to seven.

Mr Stanhope: Yes, which is what was required.

MR SMYTH: No. The act says, and it is there, that it should be the chairman, a public servant and not less than seven others. So the minimum operating number is nine.

Ms Smithies: When the event that the Chief Minister refers to occurred, I think we also had an unanticipated departure from the board as well. It was simply a confluence of events depending on board members' own personal circumstances that left the board underweight in relation to its representation. The process of finding new board members and working out their suitability et cetera to be placed on government boards is in itself a time-consuming process.

MR SMYTH: Certainly, but for what percentage of the year was the board not complying with its act? If you turn to page 23, you will see that it seems that a number of the members—

Ms Smithies: The answer to that is: two months.

MR SMYTH: But it is back up to compliance with the act?

Ms Smithies: Yes.

THE CHAIR: We will leave that line of questioning there because, although we have gone over time, it would be good to give Rhodium a brief moment. Thank you very much, Mr Sadler, and again there will be some supplementary questions coming, I would imagine.

Welcome, Mr Moore from Rhodium Asset Solutions. I have just one question. The government gave directions—this is mentioned under 2.2 in the report—that Rhodium was to move to a cost recovery only basis for the provision of the fleet management services and that these services were not to cross-subsidise Rhodium's other product

lines. Did this severely hamper the ability of Rhodium to return revenue to the government and did it create an artificially low revenue figure which could have the impact of depressing the sale price?

Mr Moore: We moved to cost recovery only for the ACT fleet on 1 July 2006. Until then Rhodium could make a profit or loss on the ACT fleet depending on how efficient we were in the provision of our services. So a part of the government decision to award the ACT fleet contract with us was that we moved to a cost recovery basis only for the ACT fleet and we operated throughout 2006-07 on that basis. What we discovered in the early days of Rhodium was that there was some cross-subsidisation going on between revenues raised by Rhodium for the ACT fleet business and its commercial products. The government took a decision that that was to cease from 1 July and that is what happened.

In terms of impacting on the sale price, I do not think so because it is very clear that in selling Rhodium cost recovery only cannot survive into the commercial world and the sale documents that the government has issued on the ACT fleet product make that very clear to the buyers—that cost recovery only will die with Rhodium's sale—and they would have priced their tender responses accordingly.

THE CHAIR: You would probably know whether that was the case or not by now.

MR MULCAHY: Your net loss for the period was \$442,000, up from a loss of \$266,000 in 2006. I understand the total equities decreased from \$6.3 million down to \$5.9 million. Is this having any impact on the sale, and do you consider that Rhodium is still a commercial business in light of its recent problems and poor financial performance?

Mr Moore: There are a number of parts to that question. My view is that Rhodium is still a viable entity for sale. Our operating result is clearly impacting on the sale price—I would suspect, not being directly involved in that sale process, which is being handled by Treasury. We have made full disclosure through the sale process, starting with the information memorandum that was issued earlier this year and the due diligence processes that we have gone through.

MR MULCAHY: Are you close to a sale, or have things gone off the rails?

Mr Moore: The Treasurer may be in a better position to answer that.

Ms Smithies: That is probably a question for me to answer. We are still in negotiation with the preferred tenderer. We have had a number of issues on the journey through this negotiation about information particularly, some of the information coming out of the IT systems, as has the preferred tenderer had their own issues in relation to this process as well. We are hoping to reach a conclusion very shortly.

MR MULCAHY: I have a sense that things sound like there is a fair degree of difficulty. Can you inform the committee whether this looks like a sale that will materialise or do you suspect that you will not see an outcome?

Mr Stanhope: This is an ongoing tender process, Mr Mulcahy. I am reluctant to

comment on a negotiation that is afoot, that is difficult and sensitive.

MR MULCAHY: I understand you do not want to talk about the detail, but can you indicate whether you expect that you will get a sale within the extended time that the Assembly has now granted?

Mr Stanhope: Yes, we do.

MR MULCAHY: You believe that you will, okay.

MR SMYTH: Will that announcement be made shortly?

Mr Stanhope: It will be made when the sale is completed.

MR SMYTH: Will that be shortly or do you expect it to take additional time?

Mr Stanhope: We will take the time that we require.

THE CHAIR: As there are no more questions, we will call this a day. Thank you very much, Mr Stanhope, advisers and officials, for attending. The transcripts will be coming to you for the usual checking, and some questions may be coming as well.

The committee adjourned at 12.37 pm.